

**CITY OF PRESTON  
PRESTON, IOWA  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2006**

**CITY OF PRESTON  
PRESTON, IOWA  
TABLE OF CONTENTS**

	<u>Page No.</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-10
<b>Basic Financial Statements:</b>	<b>Exhibit</b>
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	A 11-12
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 13-14
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Statement of Activities and Net Assets	C 15
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D 16-17
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Statement of Activities and Net Assets	E 18
Notes to Financial Statements	19-27
<b>Required Supplementary Information:</b>	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	28-29
Notes to Required Supplementary Information - Budgetary Reporting	30
<b>Other Supplementary Information:</b>	<b>Schedule</b>
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 31
Statement of Cash Receipts, Disbursements and Changes in-- Cash Balances - Nonmajor Proprietary Funds	2 32
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Internal Service Funds	3 33
Schedule of Indebtedness	4 34
Bond and Note Maturities	5 35
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	6 36
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	37-38
Schedule of Findings	39-42

**CITY OF PRESTON  
PRESTON, IOWA**

**OFFICIALS**

Name	Title	Term Expires
<hr/>		
<b>(Before January 2006)</b>		
Steve Ritenour	Mayor	January 2007
Richard Rossmann	Mayor Pro Tem/Council Member	January 2007
Ken Larson	Council Member	January 2007
Carol Milder	Council Member	January 2006
Dave Jargo	Council Member	January 2006
Curtis Kilburg	Council Member	January 2006
<b>(After January 2006)</b>		
Steve Ritenour	Mayor	January 2007
Richard Rossmann	Mayor Pro Tem/Council Member	January 2007
Ken Larson	Council Member	January 2007
Carol Milder	Council Member	January 2010
Dave Jargo	Council Member	January 2010
Curtis Kilburg	Council Member	January 2010
Brenda Tebbe	City Clerk/Treasurer	Indefinite
James Bear	City Attorney	Indefinite

## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Preston, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Preston's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the remaining aggregate fund information of the City of Preston as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 11, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Preston's 2006 basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2005 (which is not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The 2006 and 2005 other supplementary information included in Schedule 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2006 and 2005 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2006, and 2005 taken as a whole.

The basic financial statements of the City of Preston for the three years ended June 30, 2004 (none of which are presented herein) were audited by other auditors whose reports dated August 12, 2004, August 13, 2003, and August 15, 2002, expressed unqualified opinions on those statements. Their reports stated that, in their opinion, such other supplementary information (Schedule 6) was fairly stated in all material respects in relation to the basic financial statements for those years then ended, taken as a whole.

O'CONNOR, BROOKS & CO., P.C.

Dubuque, Iowa  
August 11, 2006

**CITY OF PRESTON  
PRESTON, IOWA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Preston provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

**2006 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities increased 13.3% or \$54,622 from fiscal 2005 to fiscal 2006. The receipts included \$136,435 in property tax, \$56,045 in local option tax, \$79,455 in road use tax funds, and \$41,612 in other intergovernmental revenue.
- Disbursements increased .8% or \$16,263 in fiscal 2006 from fiscal 2005. Public works, water, and sewer disbursements decreased \$50,689, \$35,989, and \$15,466, respectively, while public safety, electric, and gas increased \$28,070, \$19,452, and \$33,280, respectively.
- The City's total cash basis net assets decreased 2.9% or \$38,554 from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased \$91,476. The assets of the business type activities decreased by \$130,030.

**USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements as well as other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds, proprietary funds, and internal service funds.

**CITY OF PRESTON  
PRESTON, IOWA**

**Basis of Accounting**

The city maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**REPORTING THE CITY'S FINANCIAL ACTIVITIES**

*Government-wide Financial Statement*

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government and debt service. Property tax and payment in lieu of taxes finance most of these activities.
- Business type activities of the City include water, sewer, electric, gas, garbage, and customer deposits. These activities are financed primarily by user charges.

*Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund; 2) the Special Revenue Funds, such as Road Use Tax and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains six Enterprise Funds to provide separate information for the water, sewer, electric, gas, garbage, and customer deposits funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

**CITY OF PRESTON  
PRESTON, IOWA**

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$453,379 to \$544,855. The analysis that follows focuses on the changes in cash balances for governmental activities.



---

Changes in Cash Basis Net Assets of Governmental Activities

---

	Year Ended June 30,	
	2006	2005
Receipts and Transfers:		
Program receipts:		
Charges for service	\$ 36,712	\$ 32,368
Operating grants and contributions	129,567	127,452
Capital grants and contributions	16,707	---
General receipts:		
Property tax	136,435	134,029
Local option sales tax	56,045	56,616
Utility franchise tax	8,248	---
Unrestricted investment earnings	18,315	9,072
Miscellaneous	4,665	21,346
Sale of capital assets	59,919	31,108
Transfers, net	63,990	60,000
	-----	-----
Total Receipts and Transfers	\$ 530,603	\$ 471,991
	-----	-----
Disbursements:		
Public safety	\$ 171,555	\$ 143,485
Public works	93,292	143,981
Health and social services	368	550
Culture and recreation	97,272	107,733
Community and economic development	10,816	18,489
General government	51,821	52,559
Debt service	14,003	14,412
	-----	-----
Total Disbursements	\$ 439,127	\$ 481,209
	-----	-----
Increase (Decrease) in Cash Basis Net Assets	\$ 91,476	\$ (9,218)
	-----	-----
Cash Basis Net Assets Beginning of Year	\$ 453,379	\$ 423,513
Prior Period Adjustment	---	39,084
	-----	-----
Cash Basis Net Assets Beginning of Year, as Restated	\$ 453,379	\$ 462,597
	-----	-----
Cash Basis Net Assets End of Year	\$ 544,855	\$ 453,379
	=====	=====

Total receipts for the City's governmental activities increased by 12.4% or \$58,612. The total cost of all programs and services decreased by \$42,082 or 8.8%, with no programs removed this year.

The cost of all governmental activities this year was \$439,127 compared to \$481,209 last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$256,141 because some of the cost was paid by those directly benefited from the programs (\$256,141) or by other governments and organizations that subsidized certain programs with grants and contributions (\$146,274). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for services increased from \$159,820 in fiscal year 2005 to \$182,986 in fiscal year 2006. The City paid for the remaining "public benefit" portion of governmental activities with \$256,141 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year Ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 98,625	\$ 98,593
Electric	673,511	654,059
Gas	583,851	550,571
Sewer	141,014	140,637
Garbage	97,392	97,243
Customer deposits	4,269	4,695
General Receipts:		
Unrestricted interest on investments	31,187	16,899
Miscellaneous	31,297	16,227
Transfers, net	(63,990)	(60,000)
Total Receipts	\$1,597,156	\$1,518,924
Disbursements:		
Water	\$ 144,775	\$ 180,764
Electric	729,425	691,057
Gas	585,476	530,533
Sewer	154,659	170,125
Garbage	107,428	92,589
Customer deposits	5,423	3,773
Total Disbursements	\$1,727,186	\$1,668,841
Increase (Decrease) in Cash Basis Net Assets	\$ (130,030)	\$ (149,917)
Cash Basis Net Assets Beginning of Year	862,313	1,012,230
Cash Basis Net Assets End of Year	\$ 732,283	\$ 862,313

Total business type activities disbursements for the fiscal year were \$1,727,186 compared to \$1,668,841 last year. The increase in electric was due primarily to increase in power purchase cost that the city incurred. The decrease in water was due to the previously year water tower project. Sewer disbursements decreased because of on going repairs at the lagoon. Sewer rates need to be adjusted accordingly.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Preston completed this year, its governmental funds reported a combined fund balance of \$539,190, an increase of \$91,382 above last year's total. The following is the reason for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased from \$66,075 to \$104,315. The increase of \$38,240 is due primarily to unexpected police and snow removal expenses in fiscal year 2005.

The Road Use Tax Fund cash balance increased \$61,878 to \$373,088 for the fiscal year. The City intends to use this money to upgrade the condition of all City roads.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Electric Fund cash balance decreased \$66,904 due primarily to the increase cost of purchased power.
- The Gas Fund cash balance did not change significantly during fiscal year 2006.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget only once during the fiscal year. It was amended and approved on May 22, 2006, to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs. The City had anticipated significant disbursements in the Community and Economic Development function. However, these projects were not completed because the City did not receive the grant monies needed to finance them.

## DEBT ADMINISTRATION

At June 30, 2006, the City had \$672,916 in bonds and other long-term debt, compared to \$806,088 last year, as shown below.

Outstanding Debt at Year End		
	June 30,	
	2006	2005
General Obligation Note	\$ 74,200	\$ 84,800
Revenue Bonds	255,000	298,000
Revenue Note	315,000	385,000
Promissory Note	28,716	38,288
Total	\$ 672,916	\$ 806,088

Debt decreased as a result of principal payments made on existing debt. The City does not anticipate any new debt. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$74,200 is significantly below its constitutional debt limit of \$1.7 million.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Numerous issues were taken into account when adopting the budget for fiscal year 2007. Amount available for appropriation in the operating budget will be \$2,312,025 an increase of 10% over the final 2006 budget. Property taxes are expected to stay the same with the exception of the assessment. The City will increase their contribution of in lieu of taxes to complete any projects that are expected to arise. The City has added two possible major projects for the 2006 budget.

If these estimates are realized, the City's budgeted cash balance is expected to remain relatively unchanged by the close of 2006.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brenda Tebbe, City Clerk/Treasurer, P.O. Box 37, Preston, Iowa 52069.

**BASIC  
FINANCIAL  
STATEMENTS**

## EXHIBIT "A"

CITY OF PRESTON  
PRESTON, IOWASTATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>							
Governmental Activities:							
Public safety	\$ 171,555	\$ 22,940	\$ 26,472	\$ 6,707	\$ (115,436)	\$ -	\$ (115,436)
Public works	93,292	421	79,455	-	(13,416)	-	(13,416)
Health and social services	368	-	-	-	(368)	-	(368)
Culture and recreation	97,272	8,444	23,640	10,000	(55,188)	-	(55,188)
Community and economic development	10,816	-	-	-	(10,816)	-	(10,816)
General government	51,821	4,907	-	-	(46,914)	-	46,914
Debt service	14,003	-	-	-	(14,003)	-	(14,003)
Total Governmental Activities	\$ 439,127	\$ 36,712	\$ 129,567	\$ 16,707	\$ (256,141)	\$ -	\$ (256,141)
Business Type Activities:							
Water	\$ 144,775	\$ 98,625	\$ -	\$ -	\$ -	\$ (46,150)	\$ (46,150)
Electric	729,425	673,511	-	-	-	(55,914)	(55,914)
Gas	585,476	583,851	-	-	-	(1,625)	(1,625)
Sewer	154,659	141,014	-	-	-	(13,645)	(13,645)
Garbage	107,428	97,392	-	-	-	(10,036)	(10,036)
Customer deposits	5,423	4,269	-	-	-	(1,154)	(1,154)
Total Business Type Activities	\$ 1,727,186	\$ 1,598,662	\$ -	\$ -	\$ -	\$ (128,524)	\$ (128,524)
Total	\$ 2,166,313	\$ 1,635,374	\$ 129,567	\$ 16,707	\$ (256,141)	\$ (128,524)	\$ (384,665)

See notes to financial statements.

**EXHIBIT "A" (continued)**

**CITY OF PRESTON  
PRESTON, IOWA**

**STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006**

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
<b>General Receipts:</b>							
Property tax levied for:							
General purposes					\$ 136,435	\$ -	\$ 136,435
Other city tax					64,293	-	64,293
Unrestricted interest on investments					18,315	31,187	49,502
Miscellaneous					4,665	31,297	35,962
Sale of capital assets					59,919	-	59,919
Transfers					63,990	(63,990)	-
Total General Receipts and Transfers					\$ 347,617	\$ (1,506)	\$ 346,111
Change in Cash Basis Net Assets					\$ 91,476	\$ (130,030)	\$ (38,554)
Cash Basis Net Assets Beginning of Year					453,379	862,313	1,315,692
Cash Basis Net Assets End of Year					\$ 544,855	\$ 732,283	\$ 1,277,138
<b>Cash Basis Net Assets</b>							
Restricted:							
Streets					\$ 373,088	\$ -	\$ 373,088
Library					43,419	-	43,419
Debt service					5,954	97,864	103,818
Skateboard park					10,000	-	10,000
Other purposes					-	150	150
Unrestricted					112,394	634,269	746,663
Total Cash Basis Net Assets					\$ 544,855	\$ 732,283	\$ 1,277,138

See notes to financial statements.

**CITY OF PRESTON  
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006**

		Special Revenue		
	General	Road Use Tax	Nonmajor	Total
	-----	-----	-----	-----
<b>Receipts:</b>				
Property tax	\$ 136,435	\$ -	\$ -	\$ 136,435
Other city tax	56,045	-	-	56,045
Licenses and permits	10,708	-	-	10,708
Use of money and property	17,678	-	3,084	20,762
Intergovernmental	41,612	79,455	-	121,067
Charges for services	26,154	-	-	26,154
Special assessments	421	-	-	421
Miscellaneous	32,352	-	2,750	35,102
	-----	-----	-----	-----
Total Receipts	\$ 321,405	\$ 79,455	\$ 5,834	\$ 406,694
	-----	-----	-----	-----
<b>Disbursements:</b>				
Operating:				
Public safety	\$ 171,555	\$ -	\$ -	\$ 171,555
Public works	75,809	17,577	-	93,386
Health and social services	368	-	-	368
Culture and recreation	96,705	-	567	97,272
Community and economic development	10,816	-	-	10,816
General government	51,821	-	-	51,821
Debt service	-	-	14,003	14,003
	-----	-----	-----	-----
Total Disbursements	\$ 407,074	\$ 17,577	\$ 14,570	\$ 439,221
	-----	-----	-----	-----
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (85,669)	\$ 61,878	\$ (8,736)	\$ (32,527)
	-----	-----	-----	-----
<b>Other Financing Sources (Uses):</b>				
Sale of capital assets	\$ 59,919	\$ -	\$ -	\$ 59,919
Transfers in	63,990	-	14,003	77,993
Transfers out	-	-	(14,003)	(14,003)
	-----	-----	-----	-----
Total Other Financing Sources (Uses)	\$ 123,909	\$ -	-	123,909
	-----	-----	-----	-----
Net Change in Cash Balances	\$ 38,240	\$ 61,878	\$ (8,736)	\$ 91,382
	-----	-----	-----	-----
Cash Balances Beginning of Year	66,075	311,210	70,523	447,808
	-----	-----	-----	-----
Cash Balances End of Year	\$ 104,315	\$ 373,088	\$ 61,787	\$ 539,190
	=====	=====	=====	=====

See notes to financial statements.



**CITY OF PRESTON  
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006**

		Special Revenue		
	General	Road Use Tax	Nonmajor	Total
	-----	-----	-----	-----
<b>Cash Basis Fund Balances:</b>				
Reserved:				
Debt service	\$ -	\$ -	\$ 5,954	\$ 5,954
Skateboard park	10,000	-	-	10,000
Unreserved:				
Designated, special revenue funds	-	-	12,414	12,414
Undesignated:				
General fund	94,315	-	-	94,315
Special revenue funds	-	373,088	43,419	416,507
	-----	-----	-----	-----
Total Cash Basis Fund Balances	\$ 104,315	\$ 373,088	\$ 61,787	\$ 539,190
	=====	=====	=====	=====

See notes to financial statements.

**CITY OF PRESTON  
PRESTON, IOWA**

**RECONCILIATION OF THE STATEMENT  
OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES  
IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES  
AND NET ASSETS - GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006**

<b>Total governmental funds cash balances</b>	\$ 539,190
---	------------

*Amounts reported for governmental activities in the Statement of  
Activities and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of the shed maintenance and to charge the reserve for insurance premiums to the individual funds. The assets of the Internal Service Funds are included in governmental activities in the Statement of Net Assets.

5,665

-----

<b>Cash basis net assets of governmental activities</b>	\$ 544,855
---	------------

=====

<b>Net change in cash balances</b>	\$ 91,382
------------------------------------	-----------

*Amounts reported for governmental activities in the Statement of  
Activities and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of shed maintenance and to charge the reserve for insurance premiums to the individual funds. The change in net assets of the Internal Service Funds is reported with governmental activities.

94

-----

<b>Change in cash balance of governmental activities</b>	\$ 91,476
--	-----------

=====

See notes to financial statements.

**CITY OF PRESTON  
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH  
BALANCES - PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006**

	Enterprise Funds				Internal Service Funds
	Electric	Gas	Nonmajor	Total	
<b>Operating Receipts:</b>					
Use of money and property	\$ 12,783	\$ 14,820	\$ 3,584	\$ 31,187	\$ -
Charges for services	673,511	583,851	337,031	1,594,393	3,000
	-----	-----	-----	-----	-----
Total Operating Receipts	\$ 686,294	\$ 598,671	\$ 340,615	\$ 1,625,580	\$ 3,000
	-----	-----	-----	-----	-----
<b>Operating Disbursements:</b>					
Salaries and wages	\$ 70,088	\$ 34,196	\$ 91,575	\$ 195,859	\$ -
Employee benefits and costs	41,896	22,927	46,112	110,935	-
Staff development	213	5,580	1,283	7,076	-
Repairs, maintenance and utilities	7,341	3,375	44,502	55,218	19
Contractual services	454,201	486,293	78,596	1,019,090	-
Commodities	30,899	13,711	34,648	79,258	2,607
Capital outlay	27,379	19,469	61,285	108,133	-
Debt service	97,502	-	54,397	151,899	-
	-----	-----	-----	-----	-----
Total Operating Disbursements	\$ 729,519	\$ 585,551	\$ 412,398	\$ 1,727,468	\$ 2,626
	-----	-----	-----	-----	-----
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	\$ (43,225)	\$ 13,120	\$ (71,783)	\$ (101,888)	\$ 374
<b>Non-Operating Receipts:</b>					
Miscellaneous	8,316	14,725	12,525	35,566	-
	-----	-----	-----	-----	-----
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (34,909)	\$ 27,845	\$ (59,258)	\$ (66,322)	\$ 374
Transfers in	-	-	-	-	-
Transfers out	(31,995)	(31,995)	-	(63,990)	-
	-----	-----	-----	-----	-----

See notes to financial statements.

**CITY OF PRESTON  
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH  
BALANCES - PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006**

	Enterprise Funds				Internal Service Funds
	Electric	Gas	Nonmajor	Total	
Net Change in Cash Balances	\$ (66,904)	\$ (4,150)	\$ (59,258)	\$ (130,312)	\$ 374
Cash Balances Beginning of Year	330,418	412,784	118,969	862,171	5,713
Cash Balances End of Year	\$ 263,514	\$ 408,634	\$ 59,711	\$ 731,859	\$ 6,087
<b>Cash Basis Fund Balances:</b>					
Restricted:					
Debt service	\$ 115,496	\$ -	\$ (17,632)	\$ 97,864	\$ -
Other purposes	150	-	-	150	-
Unrestricted	147,868	408,634	77,343	633,845	6,087
Total Cash Basis Fund Balances	\$ 263,514	\$ 408,634	\$ 59,711	\$ 731,859	\$ 6,087

See notes to financial statements.

**CITY OF PRESTON  
PRESTON, IOWA**

**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,  
DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006**

<b>Total enterprise funds cash balances</b>	\$ 731,859
---	------------

*Amounts reported for business type activities in the Statement of  
Activities and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of the shed maintenance and to charge the reserve for insurance premiums to the individual funds. The assets of the Internal Service Funds are included in business type activities in the Statement of Net Assets.

424

-----

<b>Cash basis net assets of business type activities</b>	\$ 732,283
--	------------

=====

<b>Net change in cash balances</b>	(130,312)
------------------------------------	-----------

*Amounts reported for business type activities in the Statement of  
Activities and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of shed maintenance and to charge the reserve for insurance premiums to the individual funds. The change in net assets of the Internal Service Funds is reported with business type activities.

282

-----

<b>Change in cash balance of business type activities</b>	\$ (130,030)
---	--------------

=====

See notes to financial statements.

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 1 - Summary of Significant Accounting Policies:**

The City of Preston is a political subdivision of the State of Iowa located in Jackson County. It was first incorporated in 1890 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides, water, sewer, electric, gas, and garbage utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Preston has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City also participates in one jointly governed organization that provides goods or services to the citizenry of the City but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following board: Jackson County Sanitation Disposal Agency.

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 1 - Summary of Significant Accounting Policies: (Continued)**

**B. Basis of Presentation**

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and enterprise funds are aggregated and reported as nonmajor governmental funds and nonmajor enterprise funds.

The City reports the following major governmental funds:

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 1 - Summary of Significant Accounting Policies: (Continued)**

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for road construction and maintenance.

The City reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The City also reports the following additional proprietary fund:

The Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

**C. Measurement Focus and Basis of Accounting**

The City of Preston maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.



**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 1 - Summary of Significant Accounting Policies: (Continued)**

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, and debt service functions.

**Note 2 - Cash and Pooled Investments:**

The City's deposits in banks at June 30, 2006, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the City had the following investments:

Type	Fair Value	Maturity
-----	-----	-----
Maquoketa Area Foundation	\$ 43,419	N/A
	=====	

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit Risk - The City's investment in the Maquoketa Area Foundation is unrated.

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 3 - Bonds and Notes Payable:**

Annual debt service requirements to maturity for the City's indebtedness are as follows:

Year Ending June 30,	General Obligation Note		Revenue Bonds		Revenue Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 10,600	\$ 2,968	\$ 43,000	\$ 7,455	\$ 75,000	\$ 14,956
2008	10,600	2,544	44,000	6,150	75,000	11,618
2009	10,600	2,120	50,000	4,815	80,000	8,130
2010	10,600	1,696	50,000	3,315	85,000	4,250
2011	10,600	1,272	51,000	1,800	-	-
2012-2013	21,200	1,272	17,000	255	-	-
Total	\$ 74,200	\$ 11,872	\$ 255,000	\$ 23,790	\$ 315,000	\$ 38,954

Year Ending June 30	Promissory Note		Total	
	Principal	Interest	Principal	Interest
2007	\$ 9,572	\$ -	\$ 138,172	\$ 25,379
2008	9,572	-	139,172	20,312
2009	9,572	-	150,172	15,065
2010	-	-	145,600	9,261
2011	-	-	61,600	3,072
2012-2013	-	-	38,200	1,527
Total	\$ 28,716	\$ -	\$ 672,916	\$ 74,616

The resolutions providing for the issuance of the sewer revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Sewer Fund, and the bondholders hold a lien on the future earnings of the fund.

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 3 - Bonds and Notes Payable: (Continued)**

- (b) Establish a Sinking Fund and make a monthly cash transfer equal to 1/6 of the installment of interest coming due on the next interest payment date plus 1/12 of the installment of principal coming due on the bonds on the next succeeding principal payment date.

The City's Sewer Fund balance is insufficient to meet the Sinking Fund requirements.

During the year, the interest rate on the sewer revenue bonds was lowered to 3.00% by the lender and the requirement to maintain a Sewer Reserve Account was removed.

The resolutions providing for the issuance of the revenue note include the following provisions:

- (a) The note will only be redeemed from the future earnings of the enterprise activity, and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to the Sinking Fund for the purpose of making the note principal and interest payments when due.
- (c) At delivery of the note, a sum equal to \$58,000 shall be made to the Reserve Fund for the purpose of making the note principal and interest payments if deposits in the Sinking Fund are insufficient to make such payments.
- (d) Additional monthly transfers of \$2,000 to the Improvement Fund shall be made until a specific minimum balance of \$50,000 has been accumulated. This account is restricted for the purpose of paying for the cost of capital improvements and extensions to the utility.
- (e) All funds remaining after first making the required payments into the Sinking Fund, the Reserve Fund, and Improvement Fund, and after the Reserve Fund contains the required Reserve Fund balance, the net revenues will be set aside into the Surplus Fund.

The City is in compliance with the provisions noted above.

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 4 - Pension and Retirement Benefits:**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$21,356, \$20,238, and \$19,933, respectively, equal to the required contributions for each year.

**Note 5 - 28E Agreement:**

On July 26, 2004, the City entered into a 28E Agreement with the City of Miles to provide police services to the City of Miles.

On June 7, 2006, the City entered into a 28E Agreement with the City of Spragueville to provide police services to the City of Spragueville.

**Note 6 - Compensated Absences:**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Sick leave and personal leave accumulates but is not payable upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
-----	-----
Vacation	\$ 9,884
	=====

The liability has been computed based on rates of pay as of June 30, 2006.

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 7 - Interfund Transfers:**

The detail of interfund transfers for the year ended June 30, 2006, is as follows:

Transfer to -----	Transfer from -----	Amount -----
General	Enterprise:	
	Electric	\$ 31,995
	Gas	31,995
Debt Service	Special Revenue:	
	Fire Department Trust	14,003
		-----
		\$ 77,993
		=====

Transfers are used to (1) move resources from the fund that statute or budget requires to collect them to the fund that statute or budget requires to disburse them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) move "in lieu of tax" payments from the enterprise funds.

**Note 8 - Risk Management:**

The City of Preston is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 9 - Construction in Progress:**

The City entered into construction and engineering contracts for the improvement of DeGroat Street and West Street in the amount of \$431,795. At June 30, 2006, \$10,250 of the engineering contract was completed. The remaining amounts will be paid as work on the project progresses. No construction had begun as of June 30, 2006.

**Note 10 - General Fund Account Balances:**

The account balances of the General Fund as of June 30, 2006, are as follows:

General	\$ 103,884
Police capital account	431
	-----
Total General Fund Balance	\$ 104,315
	=====

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 11 - Designation of Fund Balances:**

	Special Revenue -----
Library purchases	\$ 9,793
Fire department purchases	2,621
	-----
	\$ 12,414
	=====

**Note 12 - Deficit Fund Balance:**

The Enterprise Fund, Sewer, had a deficit fund balance of \$17,632 at June 30, 2006. The deficit fund balance was the result of expenditures in excess of charges for service. The deficit will be eliminated by future charges for service.

**Note 13 - Segment Information:**

The government issued revenue bonds to finance its sewer department, which operates the City's sewer operations. The Sewer Fund was created to fulfill the required covenants of the revenue bonds. Summary financial information for the Sewer Fund is presented below.

Statement of Cash Receipts, Disbursements, and Changes in Cash Balances

Operating receipts	\$ 141,267
Operating disbursements	(154,678)
	-----
Operating loss	\$ (13,411)
Nonoperating receipts	2,443
	-----
Net Change in Cash Balances	\$ (10,968)
Cash Balances Beginning of Year	(6,664)
	-----
Cash Deficit End of Year	\$ (17,632)
	=====
Cash Basis Fund Balances:	
Restricted for Debt Service	\$ (17,632)
	=====

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

**CITY OF PRESTON  
PRESTON, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND  
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -  
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
<b>Receipts:</b>							
Property tax	\$ 136,435	\$ -	\$ -	\$ 136,435	\$ 136,466	\$ 136,466	\$ (31)
Other city tax	56,045	-	-	56,045	60,000	60,000	(3,955)
Licenses and permits	10,708	-	-	10,708	2,700	2,700	8,008
Use of money and property	20,762	31,187	-	51,949	38,500	38,500	13,449
Intergovernmental	121,067	-	-	121,067	293,500	293,500	(172,433)
Charges for services	26,154	1,597,393	3,000	1,620,547	1,597,150	1,847,150	(226,603)
Special assessments	421	-	-	421	6,000	6,000	(5,579)
Miscellaneous	35,102	35,566	-	70,668	44,500	44,500	26,168
Total Receipts	\$ 406,694	\$ 1,664,146	\$ 3,000	\$ 2,067,840	\$ 2,178,816	\$ 2,428,816	\$ (360,976)
<b>Disbursements:</b>							
Public safety	\$ 171,555	\$ -	\$ -	\$ 171,555	\$ 129,599	\$ 129,599	\$ (41,956)
Public works	93,386	-	-	93,386	64,300	64,300	(29,086)
Health and social services	368	-	-	368	550	550	182
Culture and recreation	97,272	-	-	97,272	82,314	82,314	(14,958)
Community and economic development	10,816	-	-	10,816	203,000	203,000	192,184
General government	51,821	-	-	51,821	60,160	60,160	8,339
Debt service	14,003	-	-	14,003	-	-	(14,003)
Business type activities	-	1,727,468	-	1,727,468	1,508,000	1,758,000	30,532
Non-program	-	2,626	2,626	-	-	-	-
Total Disbursements	\$ 439,221	\$ 1,730,094	\$ 2,626	\$ 2,166,689	\$ 2,047,923	\$ 2,297,923	\$ 131,234

See accompanying independent auditor's report.



**CITY OF PRESTON  
PRESTON, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND  
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -  
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
	-----	-----	-----	-----	----- Original	----- Final	-----
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (32,527)	\$ (65,948)	\$ 374	\$ (98,849)	\$ 130,893	\$ 130,893	\$ (229,742)
Other Financing Sources (Uses), Net	123,909	(63,990)	-	59,919	-	-	59,919
	-----	-----	-----	-----	-----	-----	-----
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	\$ 91,382	\$ (129,938)	\$ 374	\$ (38,930)	\$ 130,893	\$ 130,893	\$ (169,823)
Balances, Beginning of Year	447,808	867,884	5,713	1,309,979	1,529,118	1,529,118	(219,139)
	-----	-----	-----	-----	-----	-----	-----
Balances, End of Year	\$ 539,190	\$ 737,946	\$ 6,087	\$ 1,271,049	\$ 1,660,011	\$ 1,660,011	\$ (388,962)
	=====	=====	=====	=====	=====	=====	=====

See accompanying independent auditor's report.

**CITY OF PRESTON  
PRESTON, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY REPORTING  
JUNE 30, 2006**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts and disbursements by \$250,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, and debt service functions.

**OTHER  
SUPPLEMENTARY  
INFORMATION**

**SCHEDULE "1"**

**CITY OF PRESTON  
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES  
IN CASH BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006**

	Special Revenue				
	Library Trust	Library Foundation	Fire Department Trust	Debt Service	Total
<b>Receipts:</b>					
Use of money and property	\$ 337	\$ 2,003	\$ 422	\$ 322	\$ 3,084
Miscellaneous	-	2,750	-	-	2,750
Total Receipts	\$ 337	\$ 4,753	\$ 422	\$ 322	\$ 5,834
<b>Disbursements:</b>					
Operating:					
Culture and recreation	\$ -	\$ 567	\$ -	\$ -	\$ 567
Debt service	-	-	-	14,003	14,003
Total Disbursements	\$ -	\$ 567	\$ -	\$ 14,003	\$ 14,570
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 337	\$ 4,186	\$ 422	\$ (13,681)	\$ (8,736)
Other Financing Sources (Uses):					
Transfers in	\$ -	\$ -	\$ -	\$ 14,003	\$ 14,003
Transfers out	-	-	(14,003)	-	(14,003)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (14,003)	\$ 14,003	\$ -
Net Change in Cash Balances	\$ 337	\$ 4,186	\$ (13,581)	\$ 322	\$ (8,736)
Cash Balances Beginning of Year	9,456	39,233	16,202	5,632	70,523
Cash Balances End of Year	\$ 9,793	\$ 43,419	\$ 2,621	\$ 5,954	\$ 61,787
<b>Cash Basis Fund Balances:</b>					
Reserved:					
Debt service	\$ -	\$ -	\$ -	\$ 5,954	\$ 5,954
Unreserved:					
Designated	9,793	-	2,621	-	12,414
Undesignated	-	43,419	-	-	43,419
Total Cash Basis Fund Balances	\$ 9,793	\$ 43,419	\$ 2,621	\$ 5,954	\$ 61,787

See accompanying independent auditor's report.

**CITY OF PRESTON  
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
NONMAJOR PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006**

	Enterprise Funds				
	Water	Sewer	Garbage	Customer Deposits	Total
<b>Operating Receipts:</b>					
Use of money and property	\$ 1,390	\$ 253	\$ 1,635	\$ 306	\$ 3,584
Charges for services	98,625	141,014	97,392	-	337,031
<b>Total Operating Receipts</b>	<b>\$ 100,015</b>	<b>\$ 141,267</b>	<b>\$ 99,027</b>	<b>\$ 306</b>	<b>\$ 340,615</b>
<b>Operating Disbursements:</b>					
Salaries and wages	\$ 36,216	\$ 29,162	\$ 26,197	\$ -	\$ 91,575
Employee benefits and costs	15,139	12,350	18,623	-	46,112
Staff development	643	463	177	-	1,283
Repairs, maintenance and utilities	9,364	31,208	3,930	-	44,502
Contractual services	17,454	13,990	41,729	5,423	78,596
Commodities	13,806	12,845	7,997	-	34,648
Capital outlay	52,172	263	8,850	-	61,285
Debt service	-	54,397	-	-	54,397
<b>Total Operating Disbursements</b>	<b>\$ 144,794</b>	<b>\$ 154,678</b>	<b>\$ 107,503</b>	<b>\$ 5,423</b>	<b>\$ 412,398</b>
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	\$ (44,779)	\$ (13,411)	\$ (8,476)	\$ (5,117)	\$ (71,783)
<b>Non-Operating Receipts:</b>					
Miscellaneous	2,973	2,443	2,840	4,269	12,525
<b>Net Change in Cash Balances</b>	<b>\$ (41,806)</b>	<b>\$ (10,968)</b>	<b>\$ (5,636)</b>	<b>\$ (848)</b>	<b>\$ (59,258)</b>
Cash Balances Beginning of Year	71,569	(6,664)	44,452	9,612	118,969
<b>Cash Balances End of Year</b>	<b>\$ 29,763</b>	<b>\$ (17,632)</b>	<b>\$ 38,816</b>	<b>\$ 8,764</b>	<b>\$ 59,711</b>
<b>Cash Basis Fund Balances:</b>					
Restricted:					
Debt service	\$ -	\$ (17,632)	\$ -	\$ -	\$ (17,632)
Unrestricted	29,763	-	38,816	8,764	77,343
<b>Total Cash Basis Fund Balances</b>	<b>\$ 29,763</b>	<b>\$ (17,632)</b>	<b>\$ 38,816</b>	<b>\$ 8,764</b>	<b>\$ 59,711</b>

See accompanying independent auditor's report.

**CITY OF PRESTON  
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - INTERNAL SERVICE FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006**

	Shed Reserve	Insurance Reserve	Total
	-----	-----	-----
<b>Operating Receipts:</b>			
Charges for service	\$ 3,000	\$ -	\$ 3,000
	-----	-----	-----
<b>Operating Disbursements:</b>			
Repairs, maintenance and utilities	\$ 19	\$ -	\$ 19
Commodities	2,607	-	2,607
	-----	-----	-----
Total Operating Disbursements	\$ 2,626	\$ -	\$ 2,626
	-----	-----	-----
Net Change in Cash Balances	\$ 374	\$ -	\$ 374
Cash Balances Beginning of Year	191	5,522	5,713
	-----	-----	-----
Cash Balances End of Year	\$ 565	\$ 5,522	\$ 6,087
	=====	=====	=====
<b>Cash Basis Fund Balances:</b>			
Unreserved	\$ 565	\$ 5,522	\$ 6,087
	=====	=====	=====

See accompanying independent auditor's report.

**CITY OF PRESTON  
PRESTON, IOWA**

**SCHEDULE "4"**

**SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2006**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue Bonds:									
Sewer	August 1, 1991	3.00%	\$ 490,000	\$ 195,000	\$ -	\$ 30,000	\$ 165,000	\$ 7,667	\$ -
Sewer	November 25, 1992	3.00%	225,000	103,000	-	13,000	90,000	3,729	-
				-----	-----	-----	-----	-----	-----
Total				\$ 298,000	\$ -	\$ 43,000	\$ 255,000	\$ 11,396	\$ -
				=====	=====	=====	=====	=====	=====
Revenue Note:									
Electric	June 1, 2002	4.00-5.00%	\$ 580,000	\$ 385,000	\$ -	\$ 70,000	\$ 315,000	\$ 17,930	\$ -
				=====	=====	=====	=====	=====	=====
Promissory Note:									
Rural Economic Development	January 17, 2000	0%	\$ 95,720	\$ 38,288	\$ -	\$ 9,572	\$ 28,716	\$ --	\$ -
				=====	=====	=====	=====	=====	=====
General Obligation Note:									
Fire truck	December 13, 2002	4.00%	\$ 106,000	\$ 84,800	\$ -	\$ 10,600	\$ 74,200	\$ 3,403	\$ -
				=====	=====	=====	=====	=====	=====

See accompanying independent auditor's report.

**SCHEDULE "5"**

**CITY OF PRESTON  
PRESTON, IOWA**

**BOND AND NOTE MATURITIES  
JUNE 30, 2006**

Year Ending June 30	Revenue Bonds					Revenue Note			Promissory Note		General Obligation Note	
	Sewer		Sewer		Total	Electric		Rural Economic Dev.		Fire Truck		
	Issued August 1, 1991		Issued November 25, 1992			Issued June 1, 2002		Issued January 17, 2000		Issued December 13, 2002		
	Interest Rates	Amount	Interest Rates	Amount		Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
	-----	-----	-----	-----		-----	-----	-----	-----	-----	-----	
2007	3.00%	\$ 30,000	3.00%	\$ 13,000	\$ 43,000	4.45%	\$ 75,000	0%	\$ 9,572	4.00%	\$ 10,600	
2008	3.00%	30,000	3.00%	14,000	44,000	4.65%	75,000	0%	9,572	4.00%	10,600	
2009	3.00%	35,000	3.00%	15,000	50,000	4.85%	80,000	0%	9,572	4.00%	10,600	
2010	3.00%	35,000	3.00%	15,000	50,000	5.00%	85,000		---	4.00%	10,600	
2011	3.00%	35,000	3.00%	16,000	51,000		---		---	4.00%	10,600	
2012		---	3.00%	17,000	17,000		---		---	4.00%	10,600	
2013		---		---			---		---	4.00%	10,600	
		-----		-----	-----		-----		-----		-----	
Total		\$ 165,000		\$ 90,000	\$ 255,000		\$ 315,000		\$ 28,716		\$ 74,200	
		=====		=====	=====		=====		=====		=====	

See accompanying independent auditor's report.



**SCHEDULE "6"****CITY OF PRESTON  
PRESTON, IOWA****SCHEDULE OF RECEIPTS BY SOURCE AND  
DISBURSEMENTS BY FUNCTION - ALL GOVERNMENTAL FUNDS  
FOR THE LAST FIVE YEARS**

	2006	2005	2004	2003	2002
	-----	-----	-----	-----	-----
Receipts:					
Property tax	\$ 136,435	\$ 134,029	\$ 137,691	\$ 135,861	\$ 119,137
Other city tax	56,045	55,086	60,174	58,538	52,828
Licenses and permits	10,708	2,710	4,421	5,889	6,381
Use of money and property	20,762	11,153	29,453	134,037	75,997
Intergovernmental	121,067	120,903	128,064	155,120	273,799
Charges for service	26,154	25,927	29,365	27,081	27,895
Special assessments	421	1,353	5,974	1,700	1,384
Miscellaneous	35,102	29,722	23,005	7,152	26,473
	-----	-----	-----	-----	-----
	\$ 406,694	\$ 380,883	\$ 418,147	\$ 525,378	\$ 583,894
	=====	=====	=====	=====	=====
Disbursements:					
Operating:					
Public safety	\$ 171,555	\$ 143,485	\$ 138,002	\$ 220,395	\$ 215,714
Public works	93,386	144,658	94,064	78,665	82,190
Health and social services	368	550	525	918	2,070
Culture and recreation	97,272	107,733	89,902	88,753	83,876
Community and economic development	10,816	18,489	22,359	31,711	105,761
General government	51,821	52,559	57,024	55,317	58,487
Debt service	14,003	14,412	16,819	-	-
	-----	-----	-----	-----	-----
Total	\$ 439,221	\$ 481,886	\$ 418,695	\$ 475,759	\$ 548,098
	=====	=====	=====	=====	=====

See accompanying independent auditor's report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor  
and Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Preston, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 11, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Preston's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Preston's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described below, we believe items I-A-06 and I-B-06 are material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Preston's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance and other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Preston and other parties to whom the City of Preston may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Preston during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

O'CONNOR, BROOKS & CO., P.C.

Dubuque, Iowa  
August 11, 2006

**CITY OF PRESTON  
PRESTON, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006**

**Part I: Findings Related to the Financial Statements:**

**REPORTABLE CONDITIONS:**

I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual at the City has custody of receipts and performs all recordkeeping and reconciling functions for the accounts.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain maximum internal control possible under the circumstances.

Response - The City Council feels they have segregated duties to the extent possible with the existing personnel.

Conclusion - Response accepted.

I-B-06 Deposits - Several receipts received prior to June 30 were not forwarded to the City Clerk for deposit until after the end of the fiscal year.

Recommendation - All monies received should be deposited in a timely manner.

Response - We will deposit all monies received in a timely manner.

Conclusion - Response accepted.

I-C-06 Utility Accounts Receivable – The City provides its utility customers with the option to pay a “budget” amount each month for utility services with the amount adjusted on an annual basis to reflect actual usage. We noted several customers whose monthly “budget” payments were not sufficient resulting in accounts receivable that are more than 120 days old.

Recommendation – The City needs to review and adjust the “budget” payment for all customers on at least an annual basis to ensure that the amount is sufficient to cover actual usage over the course of a year.

Response - We will review “budget” payments and adjust as necessary.

Conclusion - Response accepted.

**CITY OF PRESTON  
PRESTON, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006**

**Part I: Findings Related to the Financial Statements: (Continued)**

I-D-06 Library Board Minutes - The minutes of the Library Board are not currently being signed.

Recommendation - All minutes should be signed to ensure the accuracy of the minutes.

Response - We will sign all library minutes.

Conclusion - Response accepted.

**Part II: Other Findings Related to Statutory Reporting:**

II-A-06 Certified Budget - Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the public safety, public works, culture and recreation, and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-06 Business Transactions - No business transactions between the City and City officials or employees were noted.

II-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

**CITY OF PRESTON  
PRESTON, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006**

**Part II: Other Findings Related to Statutory Reporting: (Continued)**

II-F-06 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not.

II-G-06 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-06 Revenue Bonds and Notes - The City has established the appropriate accounts required by the sewer revenue bond resolution and the electric revenue note resolution. During the year, the City made the required transfers to the accounts. Even though the required transfers were made for the sewer revenue accounts, the fund balance was still insufficient to meet the sinking and reserve account requirements of the sewer revenue resolutions, so the City has a net earnings violation.

Recommendation - We recommend that the City review the status of the Sewer Fund and investigate ways to improve the cash position to comply with the bond resolution requirement regarding fund balance.

Response - The City staff will discuss with the Council ways to improve the cash position so the City complies with the bond resolution.

Conclusion - Response accepted.

II-I-06 Financial Condition - The Enterprise, Sewer Fund had a deficit balance at June 30, 2006 of \$17,632.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - We will investigate ways to eliminate this deficit.

Conclusion - Response accepted.

II-J-06 Retention of Electronic Records - Electronically retained check images (both front and back) were not being kept by the City in accordance with Chapter 554D.1114(s) of the Code of Iowa.

Recommendation - The City should contact their financial institution to inquire about availability of electronically retained check images.

**CITY OF PRESTON  
PRESTON, IOWA**

**SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006**

**Part II: Other Findings Related to Statutory Reporting: (Continued)**

Response - We have contacted the financial institution and will begin receiving electronic check images including both the front and back.

Conclusion - Response accepted.